EDITORIAL: An avoidable cost - Times-Picayune, The (New Orleans, LA) - April 3, 2007 - page 04

April 3, 2007 | Times-Picayune, The (New Orleans, LA) | Page 04

For years, the New Orleans City Council has cited cost savings in justifying why the city's east bank is serviced by Entergy New Orleans, a small subsidiary of Entergy Corp. regulated by the council.

The savings argument, however, no longer holds true. Entergy New Orleans' bills have risen above those of neighboring utilities since Hurricane Katrina, as the city's smaller customer base absorbs much of the cost of repairing Entergy's storm damage.

New Orleanians also are getting hit with far higher regulatory costs than neighboring parishes.

According to filings with the Federal Energy Regulatory Commission, in 2005 the City Council spent almost $6 million regulating Entergy New Orleans, or more than $32 per customer. By contrast, the Louisiana Public Service Commission spent $3.3 million policing the much larger Entergy Louisiana and Entergy Gulf States, or $3.37 per customer. That cost is 10 times less than in New Orleans.

A merger of Entergy New Orleans and Entergy Louisiana, which has been suggested as the best way to give the metro area reliable and affordable energy, would equalize those costs by eliminating the need for the expensive consultants the city currently uses. The City Council's Utilities Committee has only two employees, so most of the city's work is done by consultants at a rate of several hundred dollars per hour. The PSC relies mostly on in-house staff and fewer consultants.

A merger would eliminate the city's high-priced regulatory structure, and City Council members should begin exploring it with Entergy and the PSC.

For some council members, that would not be easy. The council would have to give up the power to regulate Entergy and to grant the lucrative consulting contracts. Those firms are habitual donors to the campaigns of council members and seem to have the support of the new council.

Councilwoman Shelley Midura, who lashed out against the consulting contracts during last year's campaign, defended them last month when the council renewed agreements worth more than $4.7 million.

Ms. Midura and council President Oliver Thomas, who chairs the Utilities Committee, noted that this year's amount is $400,000 less than last year's. But New Orleanians are still paying much more for regulation than residents in other metro area parishes.

A merger would require solving some thorny issues. For one, regulators would have to decide how to handle Entergy New Orleans' badly damaged gas operations. In addition, the merger must be

palatable to Entergy Louisiana customers, who also could benefit from an expanded customer base and its economies of scale.

Keeping expensive consulting contracts and regulatory functions that no longer make sense should not be the obstacle to a merger."